EXHIBIT B
Part 2

Chairman TOM DAVIS. Thank you very much. I think you noted accurately that, compared to Europe and the Western Hemisphere, we're doing very well economically, but a lot of new competition we're seeing now is from the other direction, from the Pacific Rim. In terms of the production of engineers, scientists, computer scientists and the like, basically, we see jobs migrating to those areas. The one thing we seem to have, as I talk to technology leaders in my district and around the country, is a lot of the innovation is still coming from the United States. You can put it in a box and give it to engineers in China and India and somewhere else, and they can solve the problem but the innovation really is coming from here because that's part of our culture, that's part of our economic system, and it's not just something they have grown into at the same rate.

But there is a problem when I talk to my tech leaders about getting qualified leaders in some of these high end areas. We're producing fewer engineers than we did a generation ago. A majority of the graduate students in engineering, the physical scientists and computer scientists in American universities are foreign born, and it's going to take some integration of immigration policy and a change in education to try to keep us holding the edge that we have in some of those areas. Because there the test is not just Europe, as you noted, but also from the Pacific Rim.

Any thoughts on that?

Secretary GUTIERREZ. Sure. Today we have—and I think what you're saying is exactly why we have the best economy in the world and why we are determined to keep it that way is because we are never satisfied; we are never complacent. I think many countries around the world would marvel at this conversation that we're having, given the state of our economy.

What is becoming very clear in this day and age is that the business environment that countries create can have a big role in how much innovation is done in that country. We know that innovators prefer to do innovation in the United States because the tax laws are transparent, because the rule of law is transparent, because they're not going to get hit with frivolous regulations, because their intellectual property will be protected. We know in many countries around the world that isn't happening. So that's another advantage that we have.

We have 5 percent of the world's population. We have one-third of the world's engineers and scientists. The key thing is we have to keep it going, and that's exactly why the President has issued not just an initiative but what I would call a national calling to get behind math and sciences, to get behind education, to get behind our business environment; that every company ask the question, what can we do to become more competitive? That's what the President is calling for at this point in time so that we can continue to be the greatest and most competitive economy on Earth.

Chairman TOM DAVIS. If you go back 100 years, a visionary in 1900 might have seen that oil would in fact be a dominant force in economic growth in the 20th century. And it was the companies and individuals and countries who had the oil, who could get it out of the ground, refine it, get it to markets that dominated much of the economy.

But you fast forward 100 years, the oil of the 21st century is information. And it is indeed those countries, those companies, those individuals who are able to get that information, collate it, transfer it across lines that are in fact the fastest growing companies. The fastest growing economy in the Middle East is Jordan, with no oil, surrounded by Syria, Palestine and Iraq. A tough neighborhood. But they get it.

Where our concern, is these areas continue to grow. Every company is an IT company now. Burger King is an IT company. Their product component is burgers but in terms of getting it and being productive and so on.

Our question is, we are going to need to continue to produce people not just at the innovative level—that's our niche—but also below. What suggestions do we have really for getting more of these engineers either through immigration or, more importantly, educating through our own system that's producing fewer engineers than 20 years ago?

Secretary GUTIERREZ. That's a great question, and if we go back to the President's No Child Left Behind Act, which that's really where it started, the recognition that we need to do a better job from K through 12. We know that our students at the fourth grade level are doing great versus other countries and somehow as we head toward the senior year of high school, we slip. So the President is saying, let's raise standards, let's ensure that all students have the benefit of our confidence that they can achieve higher standards. We are already beginning to see results.

Chairman TOM DAVIS. Our problem is getting qualified science and math teachers into some of these areas.

Secretary GUTIERREZ. That's correct.

Chairman TOM DAVIS. I don't know if we need to look at special incentives for that or whatever. If you're good in math and you're good in science, you can make a lot more money doing something other than teaching.

Secretary GUTIERREZ. What the American Competitiveness Initiative calls for is 70,000 new qualified math and science teachers. The other thing we'd like to pursue which we believe is part of this national calling is to get retired executives, engineers, folks who have been in the actual practice of engineering, in the math and sciences to dedicate time and volunteer and come out to the schools and teach our children.

So it's not just the teachers we hire but also to tap into the great talent that we have throughout the country who want to contribute to this calling that the President has asked for which we call the American Competitiveness Initiative.

So it starts in K through 12. We need to start at the pipeline level. And we believe that math and science is an important starting point, as well as what you say, which is computer sciences. We shouldn't forget that because, you are right, Burger King is an information company, and every manufacturing company has a huge component of services, and very often it's down to information.

Chairman TOM DAVIS. Thank you very much.

Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you. Thank you, Mr. Chairman, and thank you for holding this hearing on this very important issue.

Welcome, Mr. Secretary. Thank you for your testimony. I would like to commend the President for his initiative in the State of the Union address on the American Competitiveness Initiative. It is an issue that many of us here in the Congress, as the chairman said, have been concerned about for some time. There are a number of pieces of legislation that have already been introduced that would implement parts of what the President is calling his American Competitiveness program. A number of us unveiled something called the innovation agenda.

I think there is bipartisan support in the country for moving forward on this. Of course the whole question of globalization has been popularized in many ways by one of my constituents books, Tom Friedman's book, the World is Flat, where he makes the important observation that Beijing, Bangor and Bethesda, MD, in my congressional district, are all really neighbors now in the good sense of being able to share information, but also in the sense we're now major competitors, and we want to make sure that competition works to the benefit of everybody instead of having big winners and losers. And if we're not in front of this issue, we are going to be losing out. And I would just quote from what I think was a very important report put together by a group that was assembled by the National Academies of Sciences and Engineering, chaired by Norm Augustine, former chairman and CEO of Lockheed Martin, where they, last October, came out with a report which I think was really sounding the alarm on a range of issues, and they made a number of recommendations. But just let me read from the report because it underscores the seriousness of the issue. This was a bipartisan group of experts in our country, and they said: "It's the unanimous view of our committee that America today faces a serious and intensifying challenge with regard to its future competitiveness and standard of living. Further, we appear to be on a losing path."

They go on to say: "One need only examine the principle ingredients of competitiveness to discern that not only is the world flat, but, in fact, it may be tipping against us."

And then they go through a number of criteria and measurements to make their case, including what the chairman alluded to. For example, about two-thirds of the students studying chemistry and physics in U.S. high schools are taught by teachers with no major or certificate in the subject. In the case of math taught in grades 5 through 12, the fraction is one-half. Many students are being taught math by graduates in physical education.

They also go on to point out that the number of graduates in our universities are more than well over half of them or close to half are foreign born and that those students are more and more thinking about returning to their home countries because there are greater opportunities there than there were before in countries like India and China and many others.

So I think we're agreed on the problem, and the question is, what are we going to do with it? And I think the President's initiative was good as far as it goes, but when the budget came down the next day, I must say, I'm not sure whether the reality of the budget met the rhetoric of the State of the Union speech.

About 75 percent of the investment the President's proposing to make in this area is simply a 1-year extension of the R&D tax credit. I'm a supporter of that, but if you look elsewhere in the budget, what you're finding in many areas is taking money out of one pocket, even in the education area, and putting into another.

For example, in the math and science area, we're talking about $380 million for that initiative; $115 million comes out of a program called Even Start, which is intended to give youngsters a good start in life, which I think any scientist, including neuro scientists, will tell you is an important time to make that kind of investment.

I also, while I applaud the increase in NIST, I think that is a very important investment, and the increase in physical sciences, which I do think have been neglected in terms of basic R&D, I think it's a mistake to essentially have a decrease in real terms in our investment in the biological sciences. If you look at the NIH budget, 18 of the 19 institutes see a cut in funding, and I think that if we're going to be competitive in those areas going forward, that's a mistake.

So I would like to ask you, Mr. Secretary, with respect to the investment in education, which I really do believe is an investment in the sense that it provides a national return, and one of the things that Norm Augustine and his panel pointed out is, what other countries are doing now is sort of learning the lessons of the United States. Investments we have made in the past in science engineering and math are a big reason for why we are doing well today, and if we don't continue to make those investments, we will not be ahead in the future.

So I'd ask you really two questions. One is the No Child Left Behind funding, because I agree No Child Left Behind has been a positive initiative in our country, but if we want to make sure that we have our local school systems in a position to hire the teachers who are qualified in math and sciences and engineering, who have many other opportunities, they are going to have to be in a position to pay those teachers a decent salary.

My question to you is, the Congress passed the No Child Left Behind legislation and set forth a marker as to what we thought would be necessary funding. The Education and Work Force Committee which I serve on had an authorized level. The Senate passed it. The President signed the bill. Shouldn't we as a Nation fully fund the amounts that were authorized for the No Child Left Behind in order to meet the goals that we all agree we need to meet for our Nation's competitiveness?

Secretary GUTIERREZ. I appreciate the question, and, respectfully, Congressman, I believe your question is better answered by the Secretary of Education. I will say that the American Competitiveness Initiative adds $380 million to the area of education and is very targeted at math and sciences, K through 12, and really building on the No Child Left Behind. There's an important component on community colleges, which is also part of our competitiveness; worker retraining. So the subject of education is very, very much part of this initiative. And I would be very glad to take up the specific question about funding for No Child Left Behind.

Mr. VAN HOLLEN. If I may, Mr. Chairman, this is the Secretary of the Department of Commerce, and your role in the competitiveness issue, would you not agree that it makes sense for the Congress and the President to fund the No Child Left Behind initiative at the levels that were set out in the authorization bill?

Secretary GUTIERREZ. I believe that the passion that the President and Secretary Spellings have for this project and for this initiative and the recognition of the importance of it, that if they have put a number to it and they believe that is what it takes, I am fully supportive of that.

Mr. VAN HOLLEN. I guess you're supportive of it being $15 billion less a year than what the Congress authorized and $55 billion short since the bill was signed. I think we need to be honest with the American people.

Chairman TOM DAVIS. Thank you.

Mrs. Miller.

Mrs. MILLER. Thank you, Mr. Chairman. And, Mr. Secretary, I certainly am delighted to see you here today. We share the same background coming from Michigan, so I'm so happy to see you here, and we miss you in Michigan, but we're delighted to share you with the rest of the country here. You're doing a remarkable job certainly for the country.

In Michigan, of course, we have some rather unique dynamics in our economy right now; most of them negative, quite frankly, in a very frightening way. We're going through a transformational economy, what's happening to the automobile industry. We have the highest unemployment in the Nation, lowest personal income growth in the Nation. Bond rating obviously is bad in the State. A number of different things that have happened to us in a relatively short period of time and yet we look to the Federal Government to provide the environment so businesses can do what they do best, which is to incentivize for job creation and investment and those kinds of things.

I do think that the President's economic growth package has been, and some economists have said it, has been historically the best-timed package to really stimulate the economy, and so we see that happening. The best economy of any of the industrialized nations, etc., but obviously, in Michigan, we have, as I said, some rather unique dynamics that have our total attention at this particular time.

One of the things that I think hampers—I look at the automobile industry—but in so many different businesses is the very onerous burden of regulatory kinds of things that the government places on our businesses; their ability to compete and their ability to be competitive in a global marketplace. The old saying, I'm from the government, I'm here to help you; I think the businesses dive under the desk when they hear that, but when you look at the National Manufacturers Association, I know we're going to, on the second panel, have some representatives from them, doing a study that shows that our structural costs for American manufactured goods are 22 to 23 points higher than foreign competitors, Canada, Mexico, wherever, and small business looking at $7,000 to $8,000 per employee just to comply with the regulatory burden. My question, I guess, would go to, how closely does your Department interact

with the other agencies that are promulgating some of these regulations?

And I give you just one example that I'm aware of, hexavalent chromium, which is maybe not the most interesting subject in the world unless you're involved in aerospace or metal finishing or these kinds of things. Our government, the EPA is currently promulgating a rule that will take the standard that was 50 points per billion—I believe is how they measure it—from 50 to zero. There will be thousands of jobs that we are going to lose as a result of that. I have a lot of consternation about that.

The smaller mom and pop shops, I have a lot of those in my district. Many of them have said they're going to close up because of that. I'm wondering, how closely does the Commerce Department work with some of these other agencies? We need to have regulations, of course, but they need to be reasonable.

Secretary GUTIERREZ. I totally agree with what you're saying. We do get involved in impact assessments of regulations, and I can't talk specifically about the impact assessment of that regulation, but we're all tied to the President's direction, and that is that if we have new regulations, they should add value. And regulations should not be put in place that simply create an obstacle to doing business and that we should recognize that what drives this economy and what drives our country, what drives our growth is private sector risk taking, entrepreneurship and people wanting to go out and make a difference.

To the extent that regulations get in the way of that, we're not following that lead. So the President has been very clear on that, and it's being followed throughout the administration.

Mrs. MILLER. I appreciate that. I do think there always has to be a cost-benefit analysis of some of these things being done, and I sort of think if some of the other agencies, particularly your agency, could be a little more interactive, because it does impact commerce, obviously.

My final question would be, and I appreciate it in your opening statement when you were talking about hydrogen fuel research. Again, being from Michigan, we light up when we see that. I think it is so important. I absolutely believe that understanding security equals economic security actually equals national security. They are all interrelated. It is so important. So I was delighted to hear the President say openly we are a Nation addicted to oil, and we have to get off this dependence on foreign sources of oil. You see what's happening around the Nation.

I'll conclude here. Ethanol and biodiesels and some of these other kinds of sources of energy are so important for us to continue to advance. So I am very appreciative that you are picking up the mantel as the President has requested you to do so.

Secretary GUTIERREZ. If I may say, I think that's one of the boldest statements that was said that evening during the State of the Union, a lot of bold statements, but a very very bold statement is to say that through technology we are going to reduce our dependence on oil. And we are going to look back 20, 30 years from now and realize that statement and that determination set us on a course that will do just that. He said we're going to do it through technology, and part of that is why we are investing more in the

Department of Energy. And you can see it throughout the country. I see it in manufacturing plants. I was at the Ford plant in Kansas City. They are already producing hybrid cars. I believe you are going to see a wave of investments and interest in this area as part of the President's calling. I appreciate that.

Chairman TOM DAVIS. Thank you very much.

Mr. McHenry.

Mr. MCHENRY. Thank you, Mr. Chairman. Thank you for calling this important hearing. Secretary Gutierrez, thank you so much for taking the time to be here, and I appreciate your leadership in the Department of Commerce. It's been very good working with you. I think you are one of the outstanding Bush administration appointees, and I certainly appreciate your hard work and dedication. Thank you.

The initiative we're talking about today, the Competitiveness Initiative is very important. My district in North Carolina, western North Carolina, is going through a time of immense change. Overall unemployment nationally is somewhere around 5 percent. That's wonderful. Historic lows.

In North Carolina, we are facing nearly full employment. In some cases, some economists would call it beyond full employment. Unemployment around 4.7 percent. My district, however, is facing a time of change. We have been traditionally relying on textile and furniture industry jobs, manufacturing jobs. I have two counties that led the State in unemployment. One faced last year for a few months an unemployment rate of around 13 percent. Another country faced an unemployment rate of around 11 percent at its height. That's mainly due to loss of furniture industry jobs.

Now certainly there are trade issues that we are dealing with, competitiveness issues with China, the fact that China won't float their currency. That's a question I'll leave up to Secretary Snow at the Department of Treasury. I will not burden you with those questions.

The focus that I have tried to place in my district is on getting the skills and the training necessary to compete going forward. We can't be reliant on yesterday's jobs, we have to train for tomorrow's jobs and today's jobs.

As a district, representing a district that is termed in the Almanac for American Politics as the most blue collar district in America, we are certainly going through change.

I wanted to ask you, what would you propose for a district like mine? What can I go home and tell my people that we should be doing?

Secretary GUTIERREZ. I recall we talked about this when we traveled together to North Carolina, and at that time, you were talking about a national education coordinating council, which I believe is the sort of initiative that you need throughout the country but especially in communities, as you said, where there is change that's happening because what ultimately will help our people is to upgrade their skills, adjust their skills, but enable them to move forward with the economy and enable them to move to jobs of higher paying wage but give them the ability to constantly be training and retraining.

So I would just say that your foresight on that and your vision on that is absolutely right to the extent that we can help to execute that vision, that will—that should help. Because that's what we've seen in communities that have made the transition. It has been about getting——

Chairman TOM DAVIS. Can you pull that mic closer?

Secretary GUTIERREZ. Getting the right programs in community colleges that are tied to the jobs that are available, and that's the sort of execution that needs to take place locally.

On textile, as you know, we just signed an agreement with China for 3 years. Hopefully that will give, and it's intended to give, both retailers and manufacturers transparency and predictability as to what's going to happen over the next 3 years to enable them to do what needs to be done to become more competitive.

So I hope that has been helpful, but I would urge you to stay on this coordinating council, and I think it's the right focus.

Mr. MCHENRY. I appreciate that. I did enjoy speaking with you. We had about 2 or 3 hours that day to talk on that trip, and I appreciated that opportunity.

Is there any expertise in the Department of Commerce you could point to that folks, my folks at home, could reach out and get help with?

Secretary GUTIERREZ. Depending on the specific area, but I would point to the ITA area where we do have an office for textiles, specifically focused on textiles. And I would also lead you toward Economic Development Administration [EDA], because their role is about economic development and helping communities create jobs, becoming more attractive to private sector investment. So I would start there, and I think those two areas could be very helpful.

Mr. MCHENRY. My predecessor had the foresight to actually work with the Department of Commerce to get a Regional Economic Development survey done to point us in the right direction, so we're very much appreciative, through an issue we call Future Forward for my region.

A final question for you, where do we need to go in terms of changing the Tax Code to be competitive internationally, around the world. There are a number of different initiatives. A previous statement pointed to the fact that we are held back by regulation and taxation in this country and lawsuit abuse that actually hampers our ability to sell products around the world because the added expense and cost of that.

Secretary GUTIERREZ. I would say two things there; one is just the recognition that the tax cuts that Congress and the President enacted have worked, and there is no question that the basic principle of putting more money in the hands of business and putting more money in the hands of consumers and that they will be able to allocate that money better than a centralized body is working. The challenge now is to make those tax cuts permanent and to recognize that, if we don't make them permanent, we're raising taxes. Because that will also incentivize investors to bring more capital to the country.

And then on the innovation front, we have the R&D tax credit. We believe there's work that can be done to simplify it. It is a little bit complex. It's subject to some interpretations, and we believe we

can make it more effective so that it yields more innovation. Those are two things I would do to work on tax policy.

Mr. MCHENRY. Thank you, Mr. Secretary.

And thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you.

Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman. Thank you for having this important hearing on an issue that is on the minds of many Americans. As they look to our economic recovery, many people are concerned about how our ability to sustain economic growth, specifically in the manufacturing area, will be faced in the future.

Mr. Secretary, I want to thank you for being here and for your dedication to probably what is the most important function that we can do as a government, and that is encourage an environment for job creation.

I want to encourage you in your support of both General Motors and Adelphi and the automotive industry as they look at their transition. I know that you are aware that those jobs are very important not only to families throughout our country, but they provide opportunities for economic mobility. They are important for the innovation culture that we have.

Many of the innovations that we have arise out of the automobile industry, its engineering and its manufacturing. It's important for our defense industry, as we look to our manufacturing capability. My community has a very large presence of General Motors and Adelphi. In fact, Adelphi, as you know, is the former Delco. The D in Delco is from Dayton, OH; it is from Dayton with the Dayton Electronics Corporation. So our community is very tied to the future of the automobile industry, and your attention there would be very much appreciated.

I also want to thank you and your staff for assistance in another industry sector that is important to my community, and that is the aerospace industry. Eric Stewart of your staff and others have been very supportive of an international air and space trade show that we are looking at trying to promote our aerospace industry.

One of the components, of course, for our success in international markets is our ability to market ourselves. The many industry sectors that have trade shows have those trade shows outside of the United States, which does not permit second- and third-tier suppliers to effectively market their goods in international markets.

Our ability to encourage those types of trade shows where we can show off innovation, technology that is here in companies that are smaller companies, that can't necessarily participate in the large international shows off our shores, is important, and your support and the support of your staff, as we look to how we might support the aerospace industry.

I want to put one footnote on this. I am on the Armed Services Committee, and a stunning response to a question, General Jumper was before the Armed Services Committee, and they asked him what one of the greatest threats was to our ability to maintain a preeminent Air Force. Many people thought it might be some issue of technology, some emerging country that was our threat. His answer was the ability of the U.S. aerospace industry to continue to support the Air Force in leading technology and in production. So

it's so important not only for jobs, families and economic mobility, but also, as you know, our defense that we maintain our manufacturing base.

So I want to thank you. I would love to hear your thoughts on both the automobile industry and the aerospace industry.

[The prepared statement of Hon. Michael R. Turner follows:]

Opening Statement
Michael R. Turner
Third District of Ohio
Thursday, February 9th, 2006
House Government Reform Committee

Thank you Chairman Davis for holding this hearing today on America's competitiveness agenda. Your leadership is important in examining the issues and solutions surrounding American competitiveness.

As a member of this committee, the House competitiveness caucus, and the Republican jobs action team, I have a vested interest in increasing American competitiveness.

Last spring I held my second annual manufacturing forum in my district. During that forum I heard the myriad of issues that are facing the strong manufacturing sector in Ohio's Third District.

Congress must protect American families. Building upon America's current competitive edge is a means to that end.

From how American children are educated to how American businesses are able to trade in the world economy, increasing American competitiveness will inevitably include aspects of education, tax, and trade policy, among others. A comprehensive solution will ensure that America will remain at the forefront of industry.

I look forward to hearing ideas and suggestions from today's panels about how American competitiveness can be improved.

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Secretary GUTIERREZ. Well, we have all been very close to the automobile industry, and I can tell you that any time we read about layoffs or jobs lost that it hurts, and these are great companies. These are industries that not only are large from an economic standpoint, but they are also large symbolically. We have, and I can tell you I believe, that they are going to pull it through.

They are going through a lot of tough choices. This is a very tough time for them, but they are focused on innovation. They are focused on getting their costs down. They are focused on getting the right types of products on to the marketplace. I believe they will be able to do that, because these are great companies, these are great workers, these are great people, and they are going through a rough time.

But we need to continue to give them the environment and create the environment that allows them to pull their companies through. They don't need a tax increase. They don't need regulations that simply create an obstacle. At this point they need a playing field where they can innovate, create new products, and focus on the future and unfortunately get through this very tough period they are going through.

Chairman TOM DAVIS. Thank you very much.

Ms. Norton, any questions?

Ms. NORTON. No, thank you.

Chairman TOM DAVIS. Mr. Ruppersberger.

Mr. RUPPERSBERGER. I am sorry, I just came here late.

The issue of regulation, I think, is very important, I think. To have a good business attitude, partnerships between business and government are extremely important.

I do want to get into the issue, though, if you are going to talk about tax cuts, you have to talk about deficit, and the impact of the deficit—I think one of the last things that Greenspan—the issue—one of the issues he raised is that if we don't deal with the deficit, and the interest rates go up, that is going to be less investment in business, and that we have to deal with that issue.

How would you compare the tax cuts to the deficit, and what would you do to resolve that issue as it relates to what we are talking about here today?

Secretary GUTIERREZ. Sure. I would think about the deficit as the short-term deficit from now to the year 2009, and then the longer-term deficit that we have to face. We are on track to cut the deficit in half by 2009. Last year our deficit came in about $100 billion better than what we had expected, because tax receipts are coming in so much better than we had expected.

So it's quite an irony that after we reduce taxes, we are getting more revenues from taxes. And last year we had record levels of tax revenues.

So we are confident that we can manage through the next several years and cut the deficit in half. We will see some fluctuations in the short term. We have had to deal with the gulf coast spending, and that will have an impact next year. But we are headed down the track of cutting the deficit in half by 2009, and that would put us at a position where the deficit is—as a percent of GDP is actually below our historical average.

Where we should be concerned is the deficit 15, 20, 30, 40 years from now, with programs such as Social Security, where we are going to have more retirees than what the current system can support. That's not going to happen over the next 4 years, it's not going to impact us over the next 4 years, but it will impact us over the next 20, 30 and 40 years.

I am confident that we can manage our way through cutting the deficit in half by 2009. I would just say what we should be concerned about is longer term, 20, 30, 40 years from now, sir.

Mr. RUPPERSBERGER. How are you going to deal with the issue of cost as it relates to health care then? My concern is if you have to cut taxes, you have to stop spending. One has to go with another, or it's not going to work. With all of the obligations of the war, Katrina, we haven't really gotten into the health care issue yet. It is something we need to look at.

But let's get back to the issue of where we are, and we are all concerned about that. We are all concerned about China graduating more physicists, mathematicians and engineers. You know, if we don't invest in our future, if we don't invest in education, it's going to start to impact on our national security, it's going to impact on what we do in business, and it already has.

I think the way we turn that around is through education. To give you an example, Allison Transmission, which is in the district I represent, one of the most modern manufacturing plants in the United States. What happened, how that developed, is that there was an older plant in Baltimore that was closed down, but the workers at the older plant were retrained on how to operate and to work in a plant that deals with robotics and technology. As a result of that, that allows Allison, and Allison Transmission, to be able to compete worldwide, which is what we have to do with respect to technology and training.

My concern—I don't see a program out there yet that really is focused on educating, giving incentives to the—our younger generation to get into the area of engineering, math, science, physics, things of that nature. I think we have a lot more to do. We need to roll up our sleeves in a bipartisan way to do it.

To cut right now, if we are going to cut, cutting priorities, to cut in the area of scholarships, it's not going to work unless we reinvest. Do you have any comment on that?

Secretary GUTIERREZ. Well, I totally agree that this is the focus, and this is the focus of the education piece of the American Competitiveness Initiative. I think you are absolutely right. It has to be done in a bipartisan way. Sometimes a savings in the budget, or a reallocation to make the money work harder, can be perceived as a cut, but not all reductions are just sheer cuts of activity. I would look at some areas where it looks like a cut, but it's actually a savings. We are doing things more efficiently, we are doing things more effectively. We are reallocating the money to areas where we get more bang for the buck.

I think those are the types of things that we will have to do to address your concern of how do we deal with the deficit and at the same time not raise taxes. So it's always a matter of choices. And every day there are tough choices, and that is the challenge of managing through our current budget.

I believe we can do it, and I believe we can do it in a way that increases our competitiveness the way the President has called for.

Mr. RUPPERSBERGER. So far we haven't been able to do it. I hope we can do it for the benefit of our country as far as the spending side is concerned. But, again, I think everyone wants a tax cut, and I don't disagree with you that it can help the economy, but sometimes you can't afford—and the issue that we have with respect to the war, with respect to Katrina, some of these costs, and then there's some things that aren't getting done, like what we are talking with today, doesn't mean that we maybe—we might even want to consider a postponement.

What, in your opinion, would a postponement of a tax cut do until we are able to take care of our existing expenses and take care of our priorities now? Do you have any opinion of a year or two after a tax cut?

Secretary GUTIERREZ. Well, what the President proposes is just to make the cuts that have been made permanent. It's not really a further cut, but let's just make the cuts permanent. And if we don't do that, what we are saying is we are increasing our taxes.

Part of the issue here—and I saw this managing a smaller company, obviously not a company the size of the Federal Government, but very often a tax cut brings in more money, and that money will be spent, and it may—it may give us the impression that we have a lot of money coming in, and, therefore, the challenge is to spend more, not to cut more.

One of the advantages of having our taxes where they are is that it will force us to be more efficient. It will force us to do better things with taxpayers' money. I believe that's the big challenge, it's the big management challenge. Every company in the country has that challenge, and there's no reason to believe that we in the Federal Government don't have the same facts.

Mr. RUPPERSBERGER. But the facts are that hasn't happened yet. That's my concern. Is the discipline there with the administration to be able to do that?

One more question, then I will stop. It's my understanding that we have one of the largest deficits in the history of our country, and that 50 percent of that deficit is based on the tax cut, the revenue not coming in. Is that your understanding? Do you have a comment on that? Am I correct in my assumption?

Secretary GUTIERREZ. I haven't seen those numbers, sir. As I mentioned before, the tax revenue in absolute dollars last year were an all-time record. So what we are finding is that when we cut taxes, the economy grows faster, and that yields more revenues.

Mr. RUPPERSBERGER. Again, it's my understanding—I think we will relook at the numbers, I am sure, because this issue will be before us again in the next couple of weeks, that 50 percent of the deficit is based on the tax cut, the revenues that would normally come in that would not.

The issue that I raise with you is if, in fact, the tax deficits will continue to have interest rates move up, that lack—because of that, there will be a lack of capital investment in our business, which, in the end, will negatively impact on what we are trying to do here today. Do you care to comment?

Secretary GUTIERREZ. Again, I am not familiar with that 50 percent cut, but in terms of businesses, the way to continue to motivate business is to invest in our country, is to keep the tax rate low, to make the R&D tax incentives permanent.

You know, we have renewed the R&D tax incentive 12 times. The problem with that is it doesn't give business the certainty that they like, because an R&D investment, as you know, is a 10-year investment, but they don't know if they are going to have that tax incentive for 10 years. We give it to them one chunk at a time, 1 year at a time, a couple years at a time.

We should make it permanent and let them know that we are committed to a long-term incentive that will really take our country in the future with a long-term continuous plan and not a stop-and-start plan which doesn't really do the job. So I would just——

Mr. RUPPERSBERGER. That's a good point.

Chairman TOM DAVIS. Thank you.

I think one of the problems, though, is that you could look at these; if the tax level were at this point, we could expect X number of revenues, but that doesn't take into account the economic activity because of the tax cuts. One of the problems in scoring at CBO and at the Office of Management and Budget is that they don't have dynamic scoring models for that.

So if you were to raise the taxes, that doesn't mean that you halve the deficit, because you get decreased economic activity? I think that's the question.

Secretary GUTIERREZ. That's exactly right. That's exactly right. It's a little bit like do you sell more if you raise prices? Not always.

Chairman TOM DAVIS. Mr. Gutknecht.

Mr. GUTKNECHT. Mr. Chairman, as a former member of the Budget Committee, I just want to clarify. I think under the Congressional Budget Office's static scoring, they estimate that only about 20 percent of the current deficit is related directly to the tax cuts. The rest has been a change in economic activity or, I must say, more spending. I think that's something that Congress needs to do more about.

I want to thank you for coming today, because I think—I actually, believe it or not, just finished the Earth is Flat, and I think it does raise some pretty tough questions about policy in the United States. I think there are factors within the economy that can't be accounted for in just the terms that the author outlined.

I think there is an issue, though, that I would like to have you talk about a little bit, and that is this whole issue of affordability. In some respects, and we have heard you talk a little bit—well, we have to spend more on education. I think that's always something we all say. But I think at some point we have to ask ourselves, OK, how much does it cost, in some of these other countries, to educate a Ph.D. in physics or even to educate a high school student? I think one of the things that the Commerce Department could really provide for us that would be beneficial would be an honest and objective comparison of what it is costing to educate people in the United States versus Europe, versus India, versus China, versus Japan.

I think what we would find is—the reason I say this—we have gotten a lot of criticism recently about student loans. Well, there

was an article in the Minneapolis paper last week that said over the last 5 years, the cost of higher education to students in the State of Minnesota has gone up 60 percent. That's an average of over 11 percent per year. Now, that's even faster than the cost of health care has gone up.

So at some point I think we have to have an objective measure in terms of how much we pay and what ultimately we get in return. I think we have to put some pressure on the folks in that part of our economy to find efficiencies as well.

The other issue of affordability, I think this is important, and I think we can do something about this, that is the cost of energy. It was mentioned by Mrs. Miller from Michigan. I understand right now, for example, on the equivalent basis, we are paying about $13 or $14 per million cubic feet for natural gas. People in China and India and other parts of the world are buying it for as little as $5. That's a big difference, particularly if you are in the petrochemical business. As a result, we are losing a share of that.

Finally, in terms of these ideas, I would like to have you bounce them off—in terms of energy, I would like to have you come out to Minnesota sometime. We will show you some plants where we are producing today ethanol for $0.95 a gallon.

I am told—and the refineries are a little bit slow to give us the information—but the real cost of producing a gallon of unleaded gasoline today is north of $1.50 a gallon. Even on a BTU-basis-to-BTU-basis, right now ethanol is cheaper than gasoline.

That's a story that almost no one knows. It is better for the environment, it is better for the economy, and, by the way, it is cheaper. We need to get that story told. People say, well, if it is cheaper, why aren't we using more of it?

Well, the answer is, I think, because the oil companies currently have 98 percent of the market, and they are not going to give up market share voluntarily. I think we have to have not only a goal, but a specific matrix to measure how well we are getting to that goal, because we have had a goal of energy independence since 1974, and we are in worse shape today than we were then.

Finally, the last point, and this was raised by a union leader in my State, but it's a very good point and one I think we have to at least think about and discuss. He said one of the problems with dealing with countries like India and China is they haven't learned the Henry Ford principle.

The Henry Ford principle—and I think this is a great one. He said that people in factories have to be paid enough that they can afford to buy what they make. Until those countries begin to learn the Henry Ford principle, it strikes me that we are always going to be way behind the eight ball.

I wonder if you could just react to a couple of those points, and I would appreciate it. Thank you.

Secretary GUTIERREZ. And these are great questions, and hope to add a little bit of value to what you have already stated. But, yes, on the education piece, the one thing I would say is that qualitatively, we have the best advanced education system in the world. That's why students from all over the world want to come to the United States to study.

What the President has proposed and what he talked about in the American Competitiveness Initiative is that we should be keeping some of those students, the best and the brightest, to work in our country instead of training them in the best universities money can buy, and then sending them home to compete with us. So there is a qualitative aspect to our education system that I would just add to the comments that you made.

Natural gas is an interesting one. You mentioned that we have had a goal of energy independence since 1974. We have not built a natural gas terminal since the 1970's. We have not built a refinery since the 1970's. As you well know, this requires decisions, and it requires a commitment to energy independence. The President laid out a plan 5 years ago, and it was deemed to be a little bit too long-term in nature, but here we are 5 years later, and I wish we would are have had it in place 5 years ago.

So when price—when oil prices are up, we would like a solution immediately; when oil prices were down, the only one talking about a long-term energy plan was the President.

But it is interesting, 1974, we said energy independence, we haven't built a natural gas terminal since the 1970's, and we haven't built a refinery since the 1970's. I don't have the answer. I would just ask, as a challenge to all of us in the Federal Government, what do we need to do to change that?

Mr. GUTKNECHT. Mr. Secretary, let me correct you though. We have built 93 refineries in the last 5 years. They are called ethanol plants. We can build a lot more. The truth is there's not a city or a town or a county in a State in the United States that wouldn't welcome more ethanol plants. They are refineries. They do exactly the same thing.

Secretary GUTIERREZ. You are absolutely right. If you recall, the President mentioned ethanol in his State of the Union Address, and this is part of the drive to get us off the addiction of oil.

Part of the challenge that we have today is cars that take ethanol and consumers don't know it; then consumers who know it but can't find ethanol. So we do need to have enough communication, and an education to ensure that we take advantage of things like ethanol, and the President is right there. He talked about it in his State of the Union Address. It's a huge opportunity. It's one of those leaps that we can make beyond oil.

Mr. GUTKNECHT. Mr. Secretary, a goal is a dream with a deadline. It strikes me that I appreciate what the President said, and I appreciate what you are saying, but we have to set a specific goal. Then we have to measure our progress. I would submit we tonight have to spend a lot more money. With oil at $60 a barrel, right now there is plenty of money in the energy pipeline to encourage people to produce alternate forms of energy. What they need is access to the market.

The oil companies are never going to do this voluntarily. They want to solve the energy problem when they have sold the last quart. If you really want to get at this problem, you have to begin to specifically require certain percentages of our fuel supply, as the State of Minnesota is doing right now, and you will be amazed at how many people will invest in alternate energy if they know that there is an access to market.

I yield back.

Mr. GUTKNECHT. If I may add, I think that when the President of the United States says that we are going to wean ourselves off the addiction to oil, I think we will also be surprised at the impact that will have.

Mr. ISSA [presiding]. Thank you, Mr. Secretary, and certainly I share with the President the view that weaning ourselves off or at least percentage-wise cutting back on that specific fossil fuel also encourages, Mr. Gutknecht, I am sure, would agree, competition where there isn't competition for alternative for oil.

I am proud to say that every Indy car that goes around the track at the Indianapolis 500 doesn't use a drop of gasoline. So there are a few notable places.

Like Mr. Gutknecht, I just finished the World is Flat. But maybe a little differently, because I come from a business background, I may have gotten different interpretations, in some cases, of what action we should take.

I am reminded that when I first started in business, one of my first salesmen, when describing my product versus the competition, said, you know—his first meeting, he said, well, you know, it is just like the product I was selling last week, except now I am representing this guy. It is basically the same thing, it has only got two differences. It's a little bit better and more reliable, and it's just a little bit cheaper, but other than that, it's the same thing.

As you travel and I travel, and we have often bumped into each other around the world, that really is the difference of whether or not we succeed versus any European or any other competitor is are we just a little bit better? We don't have to be a lot better.

Bringing together what some of our colleagues to my left and right both asked about, which was sort of this education and skilled workforce, and particularly your last comment related to people that we educate here, that we recruit from around the world, the best and the brightest, but then they go home to help their home countries compete, because we don't allow them to stay here.

I know immigration policy is a hot button. It's a hot button on this side of the dais, and certainly it's a hot button for the administration. But what are your views as the Secretary of Commerce, looking at our competitiveness of how we should restructure our immigration policy vis-a-vis the half million that come here illegally every year, the half million or so that are allowed to immigrate here legally, the makeup of those people—and I think in fairness, disproportionately at the bottom of the economic rung, education rung, historic opportunity rung—versus the kind of people that you just talked about that you noted that we should try to retain or potentially attract? How big a shift is that if, let's say, a half million people a year were suddenly the best and the brightest people, already with education and drive, versus such a disproportionate amount of family unification or basic workers?

Secretary GUTIERREZ. There are two aspects to immigration. There is the high-skilled and then the lower-skilled workers that I believe you are talking about.

I would say two things, Congressman. One is we need to be more aggressive about enforcement, and I think that's just a very logical

position that we should know who is coming into our country, who is working, especially at a time when national security is such an important factor. So that is one aspect of the immigration dilemma.

The other aspect is we have jobs that are available that are necessary and that Americans don't want. I think it says a lot about our economy that we have moved on, we are seeking for other jobs, we are seeking higher-paying jobs, but these jobs are available.

Therefore, why not recognize that reality, recognize that it says a lot about our economy, and give these workers a guest worker's program, and not—because there is demand for the job, not force them to be coming in the dark of night and then hiding and having to be subject to people smugglers and all that is happening that we can get rid of by enforcing our borders and recognizing the economic reality that we have.

Mr. ISSA. I appreciate that. I certainly share with the President the need to enforce the borders and find a long-term solution for the labor force. But, if you will—and I know this is a conjecture, but, obviously, you are the Secretary for the next generation. What you do today will mostly be felt a decade from now.

As we consider immigration reform, if we were to fundamentally change the ratio and, let's say, reduce by 100,000 a nondescript group of legal immigrants and replace it with 100,000 designated best-of-class hires, what would be the impact to the economy of 100,000 or 200,000 net increases in, if you will, preferential hiring, for people who come with classically the H1B-type skill sets, the best, the brightest, those either with education or those who have been educated here that would otherwise return home?

Secretary GUTIERREZ. Well, specifically on the numbers—and I don't know what 100,000 more would do or 100,000 less. I think conceptually what we have seen throughout our history is that students will come to our country. They fall in love with the freedom, with society, with the tolerance. They decide to apply their skills here, they contribute to our society, they have a family. Their children become first generations, and they become as American as any of us.

That has been our history, and they add energy, they add ideas, they add a sense of hope, and they see that there is more promise here than maybe back home, and, therefore, they try as hard as they can to contribute. And I don't think I am saying anything new; I think I am simply just reciting the history of our country.

Mr. ISSA. Well, in closing, would you say then even if you can't quantify it, that a little bit like that salesman that taught me the business, we would be just a little bit better if we had that change?

Secretary GUTIERREZ. I think that new ideas, attracting the best and the brightest, making this the country that people yearn to live in is very good for us. It has been very good for us in the past. It's been very good for us in the future. I do believe that in this day and age we have a national security component that we didn't have in the past, so we have to be more diligent. We have to be more deliberate about it.

Mr. ISSA. Thank you, Mr. Secretary.

Chairman TOM DAVIS [presiding]. Thank you very much.

We talked about the deficit. I think my friend over here talked about the all-time highest deficit, but as the economy grows, the

deficit in absolute numbers grows, but as a percentage of GDP, I think we are historically in line with where we have been. Isn't that correct?

Secretary GUTIERREZ. That's correct. That's correct.

Chairman TOM DAVIS. Doesn't mean we don't want to get it down, or we shouldn't strive to get it down.

Let me just ask, although this may be a little bit outside your expertise, there's always a concern that with the size of the deficit, which is compared to some of our European competitors, and this is like not out of whack, but that there comes a tipping point where foreign investors in American dollars may take their money somewhere else. I don't know where they will take it at this point. The euro obviously has problems, but that is one concern about the deficit. Do you have any thoughts on that at all, or would you refer that to the Treasury Secretary?

Secretary GUTIERREZ. Well, I would refer any questions about currency to the Treasury Secretary.

I would just say that we have—as you were saying, Mr. Chairman, where else—the question is, is there a better place in the world in which to invest than the United States? What we are trying to do with the American Competitiveness Initiative is to continue to make the answer to that question no. The more we can do that, the better off we will be.

Chairman TOM DAVIS. Well, I want to thank you very much.

Secretary GUTIERREZ. Thank you.

Chairman TOM DAVIS. We are going to let you go. We are going to convene the second part of our hearing. I am going to try to move our second and third panels together, so we can move it in one set of questions. We will take about a 3-minute recess to get that ready. I will be back. I think Mr. Issa will reconvene in about 3, and I will be back in about 5 altogether.

[Recess.]

Mr. ISSA [presiding]. Ladies and gentlemen, I appreciate your all being here so that we could do a combined panel. I must apologize, because there's no votes on the floor today, the Members will be going in and out as they prepare for, on one side of the aisle, a retreat, and on the other side of the aisle, I suspect, a retreat back to their districts.

But I am pleased today to welcome all of you. Dr. Hector de J. Ruiz, I hope I did that somewhat right, president and CEO of Advanced Micro Devices; Brian O'Shaughnessy, who will be joining us, who has joined us, perfect timing, president and CEO of Revere Copper Products; Mr. Richard S. Garnick, president of North American Services for Keane, Inc.; Ms. Deborah Wince-Smith, president of the Council on Competitiveness. I will do this one without reading—and former Congressman Dave McCurdy, presently president and CEO of the Electronic Industries Alliance, which includes the vast majority of divisions involved in consumer, industrial defense.

Dave, good to see you. I have to confess, I was a member of his board for a number of years, so we go back—I don't go back to Congress when he was here, but I do go back to the industry when he joined us.

As is the requirement of this committee, I would ask that you all rise to take the oath.

[Witnesses sworn.]

Mr. ISSA. Dr. Ruiz, we would be honored if you would lead off this panel.

STATEMENTS OF HECTOR DE J. RUIZ, Ph.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, ADVANCED MICRO DEVICES; M. BRIAN O'SHAUGHNESSY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, REVERE COPPER PRODUCTS; RICHARD S. GARNICK, PRESIDENT, NORTH AMERICAN SERVICES, KEANE, INC.; DEBORAH WINCE-SMITH, PRESIDENT, COUNCIL ON COMPETITIVENESS; AND DAVE McCURDY, PRESIDENT, ELECTRONIC INDUSTRIES ALLIANCE

STATEMENT OF HECTOR DE J. RUIZ

Dr. RUIZ. Thank you, Mr. Chairman, members of this committee. Thank you for the opportunity to be here before you today. As chairman and CEO of Advanced Micro Devices, the question of competitiveness is of particular interest to us, and to the semiconductor industry as a whole.

AMD is a Silicon Valley company—and just a brief description of what we do. Every segment of the economy of any country is now based on the information technology, from agriculture, to the health industry, to transportation, and, of course, to computers.

We are one of the two companies that make microprocessors in the world. The other one is Intel. So we view ourselves as being at the heart of every segment of the economy, of every single part around the world. For we are also aware that the world is changing, because we witnessed it firsthand, and we know that past performance is no guarantee of success in the future.

And we know that America's ability to compete in the 21st century economy hinges on one factor more than anything else, and that is our ability to innovate. Those of us in the semiconductor industry understand that better than anyone. The products that we make are the fuel that power the technology-driven economy.

We understand that leadership and innovation requires innovative leadership. AMD applauds President Bush's new American Competitiveness Initiative, and we believe that recent proposals by Members of Congress are similar steps in the right direction. We also applaud Mr. Chairman Davis' leadership in this particular arena. AMD fully supports these important efforts, and we urge all the makers to enact them.

We must increase Federal support for basic research. We must make permanent the R&D tax credit, and we must improve the quality of education, particularly in our K–12 schools. We must create a regulatory environment that is streamlined, effective and responsive to business, and we must enhance our public policy infrastructure to encourage and support innovation in both the public and the private sector.

But there is more. To this end I want to focus today on three critical points that I believe to be the three keys to enhancing American competitiveness in this increasingly flat world. First, you cannot have competitiveness without competition. Second, government procurement is competitiveness policy in action; and, third

and finally, investing in education is building competitiveness for the future.

Let me explain. First, you cannot have competitiveness without competition. All of the investment, research, specialized education in the world will not amount to a growing, dynamic economy without competition. We know that America's abilities to compete and lead in the 21st century economy and enhance the standard of living of citizens depends upon our ability to innovate.

Companies that fail to embrace innovation as a core business value will fail, as global competitors will do. Innovation is how we can take and maintain the lead, and competition is the heart and soul of innovation, because innovation happens when we feel like we have no choice but to think and act in different ways.

Competition drives us to push past all limits, to extend our vision beyond what we believe to be possible. It pushes us to achieve something greater, and it is competition that turns innovation into the real advantages that allows us to compete on a global scale.

We need competition to drive us to think outside the box. Fair and open competition is a necessity for our share of success, and we have a responsibility to ensure that no one is sheltered from competition. Everyone, every company and every nation deserves an equal chance to compete and succeed on the merits of the innovation that they offer to the world.

Enforcement of antitrust laws and standards of market conduct are critical to a competitive society, and the United States must serve as an example for the rest of the world in promoting free trade and protecting fair and open competition. At the same time, our public sector must serve as an example for our private sector.

That brings me to the second key. Government procurement is competitiveness policy in action. AMD recently commissioned a study, the results of which were released yesterday, showing that the Federal Government, and U.S. taxpayers, would have saved between $281 million and $563 million by adopting performance-based procurement standards for microprocessors. At a time when we face budgetary belt-tightening across the board, government contracts should favor the best technology at the best price, not a single company or a best-known brand.

The final key to ensuring U.S. competitiveness is one which is of great personal importance to me: investing in the improvement of our K–12 education system. Too often we think of competitiveness policy only in terms of graduate and specialized education, but I know from my own experience that our entire educational system is critical to our competitive business. It begins with making a considerable investment in improving our K–12 education system across all subject areas.

But I believe we must go even further. We have to plant the seeds for future economic growth. In this respect the private sector has a responsibility to lead. With that in mind, AMD has begun to form partnerships with leaders around the world. We invested a great deal in our 50x15 Initiative, a commitment to empower 50 percent of the world's population with affordable Internet access by the year 2015.

Today that number is less than 15 percent, so we currently have a great deal of work to do in the next decade, but I believe we can

accomplish this goal, and, perhaps more important, to maintain U.S. competitiveness in this century, I am saying that we must achieve that goal.

We are developing new technologies and solutions that will make Internet access and computing affordable and accessible in places that are far removed from this promise. The first step has been the development of a personal Internet communicator, which provides Internet access to first-time technology uses, and this is a sophisticated device that sells for around $200. Without having any familiarity with computers, people in lower-income and remote locations can, within minutes, access endless amount of information and stay in touch with family members and search the Web.

In Brazil, Russia, China, India and my native Mexico, our goal is to connect billions of people with a chance to—Internet providers to learn about the world, communicate with others, and become part of the growing economy.

We are bringing hope and possibility to places that have not simply been left behind, but have been completely left out. It may sound like charity, but it is not. It is central to our business strategy for the future, because while we are connecting people in the developing world to a greater opportunity, we are also building long-term relationships with infrastructure providers, government institutions and consumers themselves that are going to reap the benefits for many years to come.

In closing, let me leave you with one final thought, an explanation of why this issue is so important to me. I grew up in a small village in Mexico, and, to me, America beckoned as the land of opportunity. Each day I walked across the border to attend high school in Eagle Pass, TX, knowing that I was on the path to a better future. Education in the United States was my opportunity, the key to unlocking my potential.

But far too many of today's children don't have that opportunity that I was granted. With a public education system that consistently falls behind the rest of the world, the United States is failing our children right here at home in the most fundamental of ways. We have a responsibility to them and to future generations to ensure that America remains the land of greatest opportunity.

Indeed, America is still a Nation where opportunity not only exists, but a balance. The key to competitiveness in this century lies in giving our citizens the tools that will allow them to capitalize on that opportunity, the tools that will allow them to innovate, to compete and to lead.

Thank you, Mr. Chairman.

Mr. ISSA. Thank you, Dr. Ruiz.

[The prepared statement of Dr. Ruiz follows:]

Testimony of
HECTOR DE JESUS RUIZ
CHAIRMAN AND CEO
ADVANCED MICRO DEVICES
Before the
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES
February 9, 2006

Mr. Chairman, Representative Waxman, Members of the Committee, thank you for the opportunity to appear before you today to discuss the state of U.S. competitiveness in the increasingly global 21st century economy.

As Chairman and CEO of AMD, this is an issue of particular interest, both to me personally as well as to the semiconductor industry as a whole. I believe AMD's commitment to continuous innovation and the pursuit of fair and open competition makes it particularly well-suited to serve as an example of how U.S. companies must adapt in order to compete in this newly globalized, some would say "flat," world.

Based in Sunnyvale, California, AMD is leading the world in the design and production of products that lie at the heart of today's technology-driven economy. In countries around the globe, AMD microchips power everything from supercomputers and industrial servers to laptop PCs and cell phones.

AMD is based in the U.S., but we truly are a global company. Our products are produced and sold all over the world. We employ thousands of the brightest scientific minds, both in America and abroad. And the research we conduct in facilities around the globe constantly challenges the frontiers of scientific knowledge.

As I share the experience of AMD with you today, I want to address the fundamental actions that I believe this nation must take in order to ensure that we retain our technological lead so that we can continue to compete in the 21st century economy.

Most importantly, I want to leave you with three key thoughts – what I believe to be the three keys to further enhancing American competitiveness in this increasingly "flat" world:

1) You can't have competitiveness without competition;
2) Government procurement is competitiveness policy in action; and
3) Investing in education is building competitiveness for the future.

I am proud of the contribution AMD's innovation leadership continues to make toward enhancing U.S. competitiveness. But, I also am keenly aware that the world is changing. I have witnessed this first-hand.

Past performance is no guarantee of success in the future. The same business models and government policies that propelled America to the top and helped build the world's greatest economy in the 20th century could hold it back in the 21st century.

We cannot allow this to happen.

New times require new ideas and new ways of doing things. America must adapt to the changing world and recommit itself to achieving the technological leadership that will fuel the 21st century economy. And make no mistake, we must do so now – the need is, indeed, urgent.

While America maintains its preeminence in the world economy, it's no secret that the global playing field is being leveled. There is mounting evidence that other nations are better prepared and more motivated to compete in this new economy.

China, which has overtaken the U.S. as the world's largest exporter of high-tech products, now graduates four times as many engineers as the United States. Japan graduates twice as many and South Korea the same number as the U.S., despite the fact that they have one-sixth of our population.

China has more than doubled its R&D investment in the last decade, while the U.S. Congress has repeatedly cut back federal investment in technological research and development. What's more, many foreign governments offer favorable tax structures and other financial incentives to companies which conduct their research and development in their nations, while the U.S. has made no significant effort to reform tax policies in order to attract and retain such business. Foreign-owned companies and foreign-born inventors now account for nearly half of all U.S. patents. And even more frightening in the context of all of these statistics, U.S. 12th graders recently performed below the national average of 21 countries on a test of general knowledge of math and science.

Clearly, we must take action now to correct this imbalance before the economic scales are permanently tipped against us and we are no longer able to compete on a global scale. We cannot afford to be complacent. Nor do we have the luxury of time to spend blaming others. We must come to terms with just how competitive – and how quickly so – the rest of the world has become. And we must recognize that losing our competitive edge is as much a threat to national security as it is to economic vitality.

In this regard, let me emphasize one critical point: Although we must benchmark ourselves against other economies – just as competitive companies benchmark themselves every day against their competition – the world economy is not a zero-sum game. I firmly believe that the United States must work hard to be as competitive as it can be. But we should welcome, as well, other nations when they make themselves more competitive. The way to sustain our own economy is to encourage others to compete, rather than try to hold them back. More than that, economic growth can bring stability to a world with all too much unrest and violence.

Thus, we must understand that in confronting this challenge there is also tremendous opportunity – opportunity both to grow our economy while also enriching the lives of all of the world's people.

I. The Three Keys to Competitiveness

While the United States must examine and address our basic public policy needs as a nation in order to compete and lead in the 21st century economy, I believe we must first and foremost understand that a competitive society is not based only on the creation of a research-based infrastructure, as critical as that may be.

That is why I want to emphasize this morning three parts of society that, although often seen as beyond the scope of competitiveness policy, are actually fundamental to its success.

The principles which make up "The Three Keys to Competitiveness" are:

1) **You can't have competitiveness without competition;**
2) **Government procurement is competitiveness policy in action; and**
3) **Investing in education is building competitiveness for the future.**

I will address these principles in order.

First, you can't have competitiveness without competition. All the investment, research and specialized education in the world won't amount to a growing, dynamic economy without healthy competition that invites and rewards innovation by many – not just a few.

Consider the Internet as an example. Federal support was critical to its creation. But competition was fundamental to its success. As we have learned over the last decade, vibrant competition allows consumers to choose between winners and losers. Google wasn't always the leading search engine – both AltaVista and Ask Jeeves got there first. But Google developed better technology and was able to bring that innovation to customers because the marketplace was open to new and better choices, not unfairly controlled by entrenched incumbents.

In other words, the triumph of the Internet is really a triumph of fair and open competition.

We know that our ability to compete and lead in the 21st century economy depends upon our ability to innovate. Companies that fail to embrace innovation as a core business value will fall to global competitors that do.

Innovation enables sustained economic growth, allowing us to take and maintain the lead. And competition is the heart and soul of innovation. Because innovation happens when we feel like we have no choice but to think and act in new and different ways, to take risks to achieve audacious goals.

Competition drives us to push past old limits, to extend our vision beyond what we believe to be possible. It pushes us to achieve something greater. And it is competition that turns innovation into the real price and performance advantages for consumers and citizens that allow us to compete on a global scale. We need competition in order to drive us to think outside the box.

Fair and open competition is a necessity for our shared success. And we have a responsibility to ensure no one is sheltered from competition. Everyone – every company and every nation – deserves an equal chance to compete and succeed on the merits of the innovation they offer the world. That means that enforcement of antitrust laws and adherence to accepted standards of market conduct are critical to the creation of a sustainable competitive society.

As a society, we must follow the standards designed to promote competition and encourage innovation. We must support open standards in technology.

In both the public and private sector, competition – not protection – is the answer. And the United States must serve as an example for the rest of the world in promoting free trade and protecting fair and open competition.

That brings me to the second key to competitiveness: Government procurement is competitiveness policy in action. Just as the United States will serve as an example for fair and open competition to the rest of the world, we must ensure that our public sector serves as an example for our private sector.

This is especially important in technology contracts. AMD recently commissioned a study by R. Preston McAfee, the J. Stanley Johnson Professor of Business, Economics and Management at the California Institute of Technology, which found that during the calendar year of 2004 approximately 69 percent of federal procurement solicitations for computer hardware posted on the federal online service *FedBizOpps.gov* contained language that either required the use of a specific brand of microprocessors or specified that the processor should be equivalent to that brand-name model microprocessor. Further economic analysis from that study, the results of which were released yesterday, shows that the federal government and U.S. taxpayers likely would have benefited from approximately $281 million to $563 million in total present-value savings by adopting vendor-neutral contract specifications based on performance benchmarks. Brand name specifications prevent federal procurement officers from choosing the best product to fit their demands and ultimately places at risk the quality and suitability of government purchases. And such limited choice leads to higher prices for federal agencies and American taxpayers.

At a time when we are faced with budgetary belt-tightening across the board, any fiscal conservative should find this practice outrageous. And it must end. We must ensure that our own government contracts favor the best technology at the best price, rather than a

single company or the best-known brand. That is the best deal for our taxpayers and it is the best example for our nation – and other nations.

Indeed, open government procurement contracts should be a central goal of our trade negotiations with other nations, so that their public sectors may serve as similar examples in support of fair and open competition and innovation. In fact, we believe that the United States Trade Representative should make fair and open procurement a key objective of international negotiations.

The final key to ensuring U.S. competitiveness is one which is of great personal importance to me: Investing in the improvement of our K-12 education system. Too often we think of competitiveness policy only in terms of graduate and specialized education. But, I know from my own experience, that our entire educational system is critical to competitiveness.

As a teenager growing up in a small village in Mexico, America beckoned to me as the land of opportunity. Each day, I walked across the border to attend high school in Eagle Pass, Texas, knowing I was on a path toward a better future. Education was my opportunity – the key to unlocking my full potential.

But far too many of today's children do not have that same opportunity I enjoyed. With a public education system that consistently falls behind those of other nations in the world, we are failing our children right here at home in the most fundamental way. We have a responsibility to them and to future generations to ensure that America remains the land of greatest opportunity.

That begins with making a conscious and considerable investment in improving our K-12 education system. And while math and science education are critically important, especially in this new technology-driven economy, I firmly believe we must focus on improving our entire education system across all subject areas.

This is crucial to our ability to compete in the global economy for so many reasons, not the least of which is the fact that companies will be compelled to go where the talent is. We must make every effort to attract, educate and retain the very best and the brightest in the world, nurturing talent in America from a very young age.

I take this issue very seriously, and AMD has dedicated significant resources to improving K-12 education in the communities in which we operate. In 2004, AMD invested more than $717,000 in educational institutions and programs in the communities surrounding our domestic and international sites. And we donated another $1.5 million to engineering programs at universities throughout the U.S. We are a founding sponsor of GirlStart, an Austin, Texas-based non-profit aimed at educating and empowering girls ages nine through fifteen by encouraging their interest in math, science and technology. AMD scientists and engineers also volunteer as science fair project advisors to Sunnyvale, California-area middle-schoolers through the Science Buddies online mentoring program. And since great teachers are key to successful learning, AMD also

funds programs aimed at developing and supporting effective classroom instruction, through programs like Sunnyvale's Industry Initiatives in Science and Math Education which provides hands-on experience in the high-tech workplace for science and math teachers that can be translated back into the classroom.

In addition, we've partnered with local community colleges, like Austin Community College, in developing Semiconductor Manufacturing Program scholarships to train new workers in our field. And in 2004, we devoted $7.8 million to training our current workforce and offered $1.4 million in tuition reimbursement to employees seeking to further their education.

These are just a few of the many examples of the ways in which AMD has dedicated itself as a company to this principle. We see it as more than a chance to give back to our communities and employees – it's another way in which we can contribute to competitiveness, both in the United States and globally.

II. Actions Fundamental to U.S. Competitiveness – Investment, Talent and Infrastructure

While competition is the linchpin of competitiveness, we cannot ignore our basic needs as a nation. It is important that we identify the areas in which our current policies and business practices are lacking in the context of the new economy. If we are to ensure U.S. competitiveness in the 21st century, we must take action in critical areas of need: investment, talent and infrastructure.

Indeed, President Bush took a bold step to address these issues when he announced the "American Competitiveness Initiative" in his State of the Union Address. AMD applauds the president's efforts to elevate competitiveness to the forefront of the national public policy agenda.

The United States Congress also took an important step in the right direction in December, when Senators Ensign and Lieberman, along with 22 co-sponsors, introduced bipartisan legislation entitled the "National Innovation Act of 2005." Allow me to take this opportunity to voice AMD's wholehearted support for the measures provided for in this bill – measures aimed at investing in a future built upon innovation and competition and measures which, if enacted, will ensure American competitiveness well into the 21st century.

The first area of critical need in which the U.S. must take action in order to retain its competitive advantage is investment, and more specifically, investment in the research and development of technology.

Many believe microprocessors to be the fuel powering the technology that is driving the 21st century economy. In today's world, technology is pervasive – no company, no

country and no citizen is untouched. Technology is the great equalizer of the 21st century, changing all of the rules by allowing countries to rapidly increase their competitive edge.

It is for this reason that we must ensure that the federal investment in research and development is re-focused on technology and exploring and challenging the frontiers of knowledge. While private companies like AMD devote a large portion of our revenues to research and development of new technologies, we cannot place enough emphasis upon the importance of federally-funded R&D. Federal funding for research and development, in large part, goes to the long-term basic research projects that pose too high of an investment risk to private companies because they may not produce a return on investment for decades.

It was federally-funded R&D that gave us the Internet, fiber optics, global positioning systems and nanotechnology, just to name a few world-changing innovations. And these are the types of breakthroughs that are critical to our future competitiveness, because they improve lives, create new jobs, open new markets and contribute to the entire nation's economic vitality. It is critical that this type of research continue. That is why we support measures which encourage federal agencies to allocate a greater percentage of their R&D budgets toward high-end innovative research, as well as proposals to significantly increase funding for the basic research conducted by the National Science Foundation.

In addition, we support the proposal to expand and make permanent the Research and Development (R&D) tax credit, thus making it easier for private companies to engage in long-term research projects. Other nations are offering more and more incentives to draw research and development to their shores. Only by making the United States an attractive location for research and development, can we continue to lead the world in this critical area.

The second area of need which is fundamental to ensuring U.S. competitiveness in the technology-driven economy is talent. If we are to not only compete, but lead, in this new economy, we must increase our base of homegrown talent in science and technology.

The statistics are staggering. China and India alone graduate 6.4 million from college, over 950,000 of which are engineers, while in the U.S. only 70,000 engineers are among the 1.3 million who graduate from college each year. More than 50 percent of our current science and engineering workforce is approaching retirement. All while the percentage of American high school seniors who plan to pursue a degree in engineering is down 30 percent from a decade ago.

If the United States does not take action to change these statistics, there is no doubt in my mind that it will lose its global reputation for "American ingenuity."

Our schools must be second to none. We must continue to attract the best and the brightest. And education must continue; we must be constantly training and preparing our workforce for what is on the horizon. It is important that we begin to develop and

implement practices – new ways of doing things – that allow us to utilize the new technologies which are the fruits of our innovation to our advantage.

The first step toward accomplishing this tremendous task is addressed in the National Innovation Act through increased funding of advanced degree and training programs in the sciences, technology, engineering and mathematics. AMD supports this, along with provisions which address the need to balance our competitive needs with national security concerns and make it easier for foreign-nationals educated and trained in the U.S. to remain here and continue their research and contribution to the U.S. economy.

The final area of fundamental need captures many smaller needs into the broader category of infrastructure. It is critical that the U.S. develop an "innovation infrastructure" to support and encourage innovation in both the private and public sectors. Public policies related to education, training, research and development, taxation, intellectual property, immigration, competition and market access all impact the ability of the private sector to innovate. The United States must aim for policies that stimulate maximum creativity and provide for free trade and fair and open competition, rather than policies which only provide for narrow benefits to one nation or one company.

We must carefully re-examine well-intentioned policies which, nonetheless, stifle and discourage innovation. AMD supports efforts to create a regulatory environment in this nation that rewards innovation and entrepreneurship. It is imperative that the American regulatory system be streamlined and responsive to businesses. That is why we strongly favor the renewal of the Paperwork Reduction Act.

AMD also supports the National Innovation Act provision for the creation of the President's Council on Innovation, with the purpose of developing a comprehensive agenda to promote innovation in the public and private sectors. Maximizing our "innovation infrastructure" to allow for greater competitiveness must be an ongoing conversation between public and private entities – no one side and no one player can dictate a blueprint for progress to the others.

III. Competing in an Increasingly "Flat" World

AMD is a company which has confronted and continues to face the challenges of competing in the new global economy of the 21st century. And I believe our experience is instructive for finding solutions that will allow us to better compete as a nation in the "flattened" world.

While AMD is based in the United States, we truly are a global company whose products are manufactured and sold all over the world. Our microprocessors are built in our state-of-the-art manufacturing facility in Dresden, Germany. We have research and development facilities in the United States as well as other countries. And we have sales and marketing centers across the globe.

As I said before, world trade is not a zero-sum game. That is why the United States should encourage and support developing economies. There's an old saying, "A rising tide lifts all boats." With the proper policies in place, the entire world ultimately stands to benefit from increased competition from America and other nations.

In this new global economy, collaboration is central to achieving this goal. That means collaboration among academic, business and government leaders in this nation. And it means collaboration among these same leaders in the U.S. and those leaders in other nations. It's just another form of innovation.

Recognizing that the private sector has a responsibility to lead this charge, AMD has already begun to form these kinds of collaborative partnerships with leaders around the world.

We've invested a great deal in our "50x15 Initiative," a commitment to empower 50 percent of the world's population with affordable access to the Internet by 2015. Today, that number is less than 15 percent, so we clearly have a great deal of work to do in the next decade. But I believe we can accomplish this goal. And perhaps more important to our company and the issues of maintaining U.S. competitiveness in the 21st century economy, I am saying we must.

AMD is developing new technologies and solutions that will make Internet access and computing capability affordable and accessible in places that are presently far removed from its promise. The first step has been the development of our Personal Internet Communicator, or PIC, which provides instant Internet access to first-time technology users. It's a sophisticated product, but it sells for only about $250, including the monitor. Without having any familiarity with computers, people in lower-income and remote locations can – within minutes – access endless amounts of information, stay in touch with family members, and search the web from their home.

In Brazil, Russia, China, India, and my native Mexico, our goal is to connect billions of people with the chance the Internet provides to learn about the world, communicate with others, and become part of a growing economy. We are bringing hope and possibility to places that have not been simply left behind, but completely left out.

Yet, I don't need to tell anyone in this room, that we would not be around for long if this initiative were about charity. It is not. It is central to our business strategy for the future. Because, while we are connecting people in the developing world to greater opportunity, we are also building long-term relationships with infrastructure providers, government institutions, and consumers themselves. And that will reap benefits for years to come.

AMD is also partnering with Google, Samsung, and Nicholas Negroponte of MIT Labs, among others to deliver on the promise of an initiative we call "One Laptop Per Child." AMD is a founding partner in this initiative, and we are directly involved in the development of the notebook computer central to its mission of providing Internet access to all of the world's children.

Through each of these initiatives, AMD is entering markets that have never been tapped. It's a risk, but we're confident the return that results from giving people the tools they need to participate and succeed in the new economy will pay off in the end.

AMD is proud to being doing our part to encourage fair and open competition, to foster innovation and to enhance competitiveness in the 21st century global economy driven by technology.

But our long-term success is dependent upon policymakers taking the steps that will allow us to continue to do these things and build upon what we have accomplished so far.

The only way for any of us to succeed in this new economy is through innovation. Constant, tireless innovation in technology, in business models, in education and in public policy. We must have the policies in place which allow us the flexibility to continually reinvent ourselves and the goods and services we have to offer in response to the ever-changing world in which we live.

From the very beginning of our history, this nation has been about discovery – about finding new beginnings and challenging frontiers. We are still the world's leading economy, home to a wealth of venture capital, many of the world's finest research labs and universities and a culture uniquely supportive of risk-taking.

Now, we must honor our history and rise to meet the challenge presented by the 21st century, and in so doing capitalize upon the incredible opportunity that comes with it to improve the lives of all of the world's people along with our own.

Mr. ISSA. Mr. O'Shaughnessy.

STATEMENT OF M. BRIAN O'SHAUGHNESSY

Mr. O'SHAUGHNESSY. Good morning, members of the committee. My company, Revere Copper Products, was founded in 1801 by Paul Revere. We believe we are the oldest manufacturing company in the United States. We don't make pots and pans anymore. That was sold to Corning about 20 years ago. So for about 75 years, we made them. The rest of the 205 we made sheet, strip and coil products of copper and brass. Think about an aluminum rolling mill and those big coils that you see. We do the same thing, but we make them out of copper and brass. We do that in Rome. We have a small plate mill over in New Bedford, MA, not far from the original plant built by Paul so long ago.

Now, you are thinking, here is an old-line manufacturing company, right? Let me explain something. Eighteen years ago, when I acquired the company—I am somewhat of an entrepreneur—we had a payroll of about 750 people. Three had degrees in engineering and computer science. Within 3 years, our payroll was 550, and we had 55 people who had degrees in engineering and computer science.

We are not a low-tech company, we are a high-tech company. When you look at our rolling mills, you will see a lot of electronics on those rolling mills. We are customers for those PCs and other chip devices to run our machines. When you look behind our machines up on the wall, you will see a glass window, and behind that window you will see $3, $4, $5 million worth of computers to run that one machine, that one mill.

Now I want to talk about why are we losing manufacturing jobs to the rest of the world? The numbers are about to come out. I think it will be somewhere around $200 billion deficit with China on manufactured goods in the United States. The EU is going to probably come out $150 million. I am just rounding off to the nearest $50 million there, because I don't know——

Mr. ISSA. Please, stay with the billion, I get confused.

Mr. O'SHAUGHNESSY. I am sorry, did I say million?

Mr. ISSA. It happens here all the time.

Mr. O'SHAUGHNESSY. All right. First of all, let's talk about what it is not. A local furniture company up in Booneville, NY, shut down, and they consolidated their operations down into the Carolinas somewhere. They had five plants; they went down to three. They announced they were consolidating and doing all of this. Their press release didn't say that they were now buying furniture from China and shipping it in.

My point here isn't about outsourcing. I think outsourcing is a phony issue. I think it has—it's an effect, not a cause of our problems. The point I am trying to make is that the press release the company put out didn't mention that we are not making those products here now because the costs are too high and this and that; we are going to make them in China.

Similarly, a lock set manufacturer in California, and in this case I will mention the company's name, Schlage Locks—do you know what lock sets are? Those are on doors where you get the door han-

dle, the brass plate, the whole mechanism. That is all called a lock set.

Well, they said they were moving closer to the market, and so they and every other lock set manufacturer in the United States left the country. Nobody has left to serve this market. But that isn't true. You walk into any big box store, you walk into Wal-Mart, Kmart, Ace, and pick up anything that is made of brass, and you will see it is made in China.

So again my point is the press release doesn't tell you the story. I don't think America knows the full story of what is going on in manufacturing and what is causing this big deficit.

So, if it's not us—and I will answer questions on that later if you like. It is certainly not the tax policies, the dividend cuts, the death tax cuts, the income tax reduction. No. Those are all good things, and those are things that need to continue.

Several years ago I started walking down a path that led me to understand better what was going on in manufacturing and the competitive situation of the United States. Our plant in New Bedford was facing very strong competition from a plant in the U.K. We were competing with them in the Middle East, in Japan and South Korea, and in the United States. But the owners of that plant were having a tough time because we were outperforming them insofar as productivity. The owner decided he had enough, and he wanted to sell.

So we looked at his books. What we discovered were, to our chagrin, to our amazement, was that his tax load was much smaller than ours. We couldn't believe this. It just happens that the VP and general manager of my plant in New Bedford is British. So he said, well, Brian, look at it, here is the situation. In that country, they have a VAT tax structure that takes up part of the costs of manufacturing. When they export to the United States, we have to face them here, they get that back, and they do everywhere else.

So I started looking around and discovered this huge discrepancy that has to do with VAT taxes, and that we are the only major industrial country that does not have a VAT tax system.

Now, what I would like to do is to put into the record my view of what a good VAT tax structure is. But, I want to make a very strong cautionary note here. It's very easy to make things worse. Here is what you can do. You can put a VAT tax in and leave the existing system and use VAT taxes to try to close some deficit.

You will make it worse for manufacturing. That would be a horrible, horrible approach to take. If you are interested in reviewing this document, you can also go to reverecopper.com and just click on VAT USA.

I quickly want to go into another couple of major points on energy. The sad truth about windmills is, you know, when they first came out, everyone was concerned about environmentalism. We wanted them to work. We wanted them to be effective. But the windmills, if we increased our number of windmills 10 percent a year for 20 years, the effective addition to our Nation's capacity would amount to 1 percent. Windmills are one of those incredible things where 1 and 1 doesn't make 2, because if the windmill is operating, the standby plant shuts down. When a windmill doesn't

operate, the standby plant comes up; 1 and 1 doesn't make 2, it actually makes about 1.08.

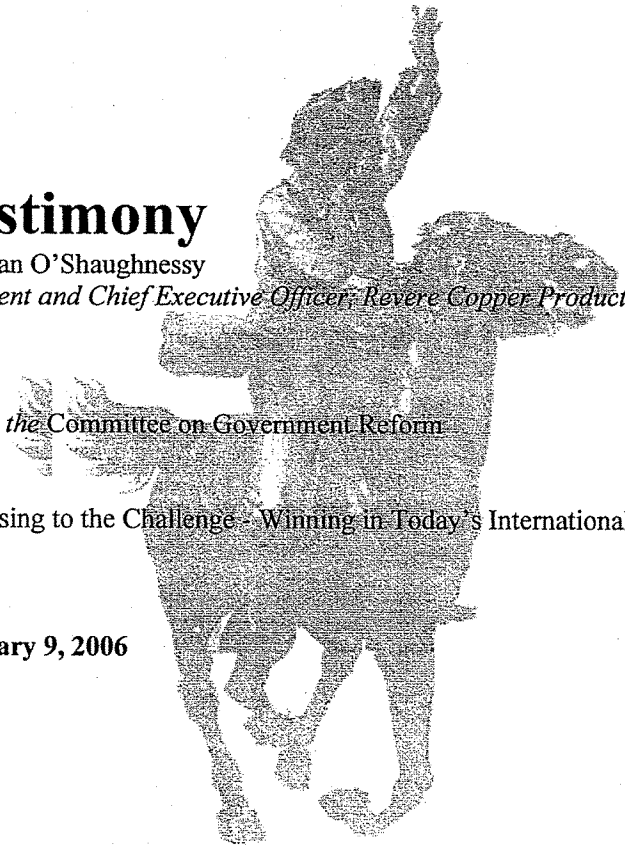
Now, some States have pushed that up to 12 percent, even 20 percent. I suspect some of those people are the ones that did the calculations on the dam in New Orleans.

Finally, on currency. China's Government recognizes the great truth that an entity that provides or creates skilled jobs is a precious thing. It is not something to be taxed, sued and regulated to death. The challenge, the impact of the regulated currency on the United States and the rest of the world is astonishing, and the world is sleeping.

So I will just ask you one question. If Paul Revere rode into this room today, what do you think he would say? The Chinese are coming. Unfortunately, they are already here, and they are taking our jobs. Thank you.

Chairman TOM DAVIS [presiding]. Thank you very much.

[The prepared statement of Mr. O'Shaughnessy follows:]



Testimony

of Brian O'Shaughnessy
President and Chief Executive Officer, Revere Copper Products, Inc.

Before the Committee on Government Reform

On Rising to the Challenge - Winning in Today's International Climate

February 9, 2006

TESTIMONY OF
Brian O'Shaughnessy
President and Chief Executive Officer
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Good afternoon, Mr. Chairman and members of the committee. I am Brian O'Shaughnessy, President of Revere Copper Products, Inc. My company was founded by Paul Revere in 1801 and may be the oldest manufacturing company in the USA.

Paul Revere grew up in his father's silversmith shop and was destined to become America's finest silversmith. A big issue in 1773 was the British tax on tea. One night Paul Revere plus about 100 members of the Sons of Liberty disguised themselves as Indians and tossed tea from three merchant ships into Boston Harbor to protest the tax.

But just imagine how Paul would have reacted if his silversmithing business had to put up with the tax scheme that burdens US manufacturing today. The current tax code represents a major drag on our economy and we need a tax code designed for the 21st century. In order to improve the competitive position of U.S. companies, policy makers should move towards a simpler and fairer tax code that encourages savings and investment and promotes economic growth. Tax relief enacted in recent years, including the lower tax rates for many small businesses, has been very helpful and Congress needs to build on these changes and make them permanent.

In April of '75, Paul was a member of yet another secret society watching the movement of British troops. He waited with a swift horse for the signal…two lanterns would be shown if the British moved by sea and one, if by land.

"He springs to the saddle, the bridle he turns,
A second lamp in the belfry burns!
And yet, through the gloom and the light,
The fate of a nation was riding that night."

But Paul was more than an expert horseman and a master silversmith. In his spare time, Paul engraved copper plates and printed money to support the cause. Powder was in short supply so Paul built a factory to make gunpowder. Next, he began manufacturing cannon. I'm sure you never heard about this side of Paul Revere, but then history pays so much attention to battles and wars and so little to the mining and manufacturing base that makes winning them possible.

Imagine once again how Paul would have fared if he faced the legal tangle that manufacturing faces today. The liability costs imbedded in health care, plant operations and product use is unlike anything faced by manufacturing companies anywhere else in the world.

Following the revolutionary war, American ships were besieged by Algerian pirates. The United States began building a naval fleet including a mighty warship, The Constitution. Paul Revere already manufactured numerous brass parts for ships. But The Constitution would need sheet copper to sheath its hull.

Ever the entrepreneur, Paul put up $12,000 of his own money, secured a $10,000 loan from the US Navy and constructed a copper rolling mill – the first in the new world. Revere and Son started up in 1801 while many of our founding fathers still ran the country. They provided the loan because they recognized the critical importance of domestic manufacturing for national defense.

Now you might conclude based on these remarks that I am a strong supporter of domestic content laws and opposed to outsourcing…but that is not the case and let me explain why. About eight years ago, the British government decided it needed a new parliament office building across the street from Big Ben. So the contractor bid out the roof which was to be made of a complex alloy – copper nickel aluminum bronze. Revere was awarded the job because we had the best price and the best reputation in the world for producing such a complex product. So think about it – today those British government employees are working under a roof supplied by a company founded by Paul Revere!

On May 10, 1818, Paul passed away but the midnight ride continued in a way that would have made America's first industrialist proud. Along with his country, Revere and Son prospered and became Revere Copper Products. Like many manufacturing companies, Revere benefited from an abundant supply of low cost energy. Although the oil industry has developed new techniques to reduce environmental impact, instead of drilling for oil where it can be found in Alaska and offshore, we are building costly windmills. The true costs are hidden as they are so bad that wind power must be mandated, subsidized and surcharged. Even if construction of such wasteful windmills increased 10% a year for 20 years, it would then only represent 1% of the nation's capacity but the blight of scenic areas would be massive. This is because only a small fraction of its designed capacity can be counted towards a state's reserve requirements because it is so unpredictable and therefore unreliable.

Our nation's economy is suffering from the burden of increasing energy costs that are stealing the savings of families and the manufacturing jobs of its workers. France uses clean, low cost nuclear technology for 80% of its generation. The USA has coal reserves for clean coal generation equal in btu content to all the oil in Saudia Arabia. The Chinese plan to build 20 nuclear power plants in the next 20 years, and so should we, along with 20 new clean coal plants. The US federal government should precertify generation sites that balance environmental concerns with economic demands and national security.

Those of us who have invested in technology development have all experienced the mounting frustration as fruition always seems just over the hill. Investing in technology development for nuclear and coal generation is intelligent but then doing nothing else while waiting and hoping for successful deployment of some new technology is national economic suicide.

US tax, legal, energy and environmental policies are all combining to place an unfair and, indeed, unsupportable burden on the manufacturing worker in the USA. Manufacturing companies such as Revere are being taxed, sued and regulated to death. Significant reform is needed of US tax, legal, energy and environmental laws in order for our country to continue to provide American workers with the skilled jobs needed for products "Made in the USA."

But that is only half of the impact on manufacturing jobs. Just as significant as the damage we are doing to ourselves is the damage caused by one country to the rest of the world. The Chinese government recognizes this great truth....an entity that creates skilled jobs is a precious thing! While we are mindful of the great need of the Chinese government to create jobs for its people, all manufacturing outside China is being severely impacted by China's policy of controlled exchange rates, unfair subsidies – including subsidies for copper and brass scrap, and rampant theft of intellectual property including both copyright piracy and trademark counterfeiting. This is a huge challenge to world manufacturing and the world is sleeping.

So, if Paul Revere rode into this room, what would he say?
THE CHINESE ARE COMING!